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## Viewing cable 06KUALALUMPUR797, 9TH MALAYSIA PLAN: AMBITIOUS AGENDA AND CHALLENGING IMPLEMENTATION

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- The middle box contains the header information that is associated with the cable. It includes information about the receiver(s) as well as a general subject.
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**#06KUALALUMPUR797**.

| Reference ID                     | Created                          | Released                         | Classification               | Origin                               |
|----------------------------------|----------------------------------|----------------------------------|------------------------------|--------------------------------------|
| <a href="#">06KUALALUMPUR797</a> | <a href="#">2006-05-02 08:10</a> | <a href="#">2011-08-30 01:44</a> | <a href="#">CONFIDENTIAL</a> | <a href="#">Embassy Kuala Lumpur</a> |

Appears in these articles:

<http://www.malaysia-today.net/mtcolumns/41819-wikileaks-9th-malaysia-plan-ambitious-agenda-and-challenging-implementation>

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C O N F I D E N T I A L SECTION 01 OF 05 KUALA LUMPUR 000797

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SUBJECT: 9TH MALAYSIA PLAN: AMBITIOUS AGENDA AND CHALLENGING IMPLEMENTATION

REF: 2005 KUALA LUMPUR 03692

Classified By: Economic Counselor Colin Helmer. Reasons: 1.4 (b) and (d).

#### SUMMARY

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11. (C) Prime Minister Abdullah recently unveiled the Ninth Malaysia plan (9MP) which envisages spending RM 220 (\$60 billion) of government and private development funds during 2006-2010 and targets an average economic growth rate of 6.0%. 9MP identifies five key areas, such as improving Malaysia's human capital, becoming a knowledge-based economy, and investing in key infrastructure, in which Malaysia must improve to achieve its goal of becoming a developed industrialized nation by 2020. Analysts are confident that the infrastructure projects, projected rate of economic growth, and some technology projects will unfold as planned, but deem projects in other areas, such as education and agriculture, to be unrealistic. While laudatory in their public comments, Malaysian economists we have spoken to in private are disappointed with the plan. They also question the GOM's ability to implement the reforms needed to attract a higher level of foreign direct investment. 9MP calls for Malaysia's private sector to take the lead in further developing the country, but our sources doubt Malaysian leaders will give private industry the freedom to transform the economy. Prime Minister Abdullah views 9MP as his top economic initiative, is aware of the challenge of implementation and is taking steps aimed at improving follow up. End Summary.

#### Five Key Thrusts

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12. (U) The 9MP lays out five broad goals that Malaysia is to meet by 2010 to keep on schedule for the "Vision 2020" goal of becoming an industrialized, developed nation by the end of the next decade. The economists with whom we met agree that these goals are well laid out, pragmatic, and correctly describe the path Malaysia needs to travel. They are: to move the economy up the value chain; to raise the capacity for knowledge and innovation and nurture a "First Class Mentality;" to address persistent socio-economic inequalities constructively and productively; to improve the standard and sustainability of quality of life; and to strengthen institutional and implementation capacity.

#### Show Me the Money

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13. (U) The 9MP will provide about RM 220 billion (US\$60 billion at RM 3.65=\$1) of government and private development spending during 2006-2010. Approximately 40% of this is allocated to what the GOM defines as economic programs, 40% to social programs, 12% to security and 8% to general administration. Funding for the subsectors that follow will come from either the social or economic segments of 9MP. Although the 9MP budget is 17.6% higher than the previous plan, 35% of 9MP's budget is earmarked for finishing up 8MP projects that were not completed during the last five year plan.

14. (SBU) About 23% of 9MP funding will be devoted to infrastructure and utilities development projects, an increase of 21.2% over the 8MP. As compared to Mahathir-era plans with their large infrastructure projects, PM Abdullah

chose to cut the pie into many small projects so that more construction contractors might participate. According to Dr. Yeah Kim Leng, Managing Director and Chief Economist at RAM Consultants Group, the GOM conducted cost/benefit analyses to identify projects that would produce a higher return on investment. This apparently was not done in the past.

¶5. (U) Although human capital development has been one of Abdullah's stated priorities, and despite media reports suggesting education was one of the big winners in the plan, education and training will receive only about 20% of the total budget. This is about the same as in the preceding 5-year plan (8MP) developed by Abdullah's predecessor, Mahathir Mohamad. New initiatives include strengthening the national (public) schools so that they become the "School of Choice" for all races in Malaysia.

¶6. (U) Agriculture, one of Abdullah's favored sectors, will receive about 6% of the funding -- a 70% boost over 8MP. However, 9MP sets a goal of transforming Malaysia into a net food exporter by 2010, which outside analysts believe is impossible given control over land use by the individual states and the higher returns from land uses other than food and livestock production. Biotechnology will get 1%, 2.5 times more than it received in 8MP.

#### Ambitious Growth Targets

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¶7. (U) In its last five-year plan, the GOM projected an average economic growth rate of 8%, but the actual rate during 2000-2005 was about 4.5%. In the background to the 9MP, government analysts place partial blame for the shortfall on the U.S.: "Global growth slowed due to a decelerating United States of America economy, and dampened electronics demand, exacerbated by the attacks of September 11, 2001. Overall economic performance remained sluggish until the second half of 2003, weighed down by the invasion of Iraq and the regional outbreak of Severe Acute Respiratory Syndrome."

¶8. (C) The government is targeting a more modest average annual growth rate of 6% during 9MP. The economists that we interviewed (a mixture of academics, investment advisors, consultants, and think tank researchers) voiced a variety of opinions about that target, with Yeah of RAM asserting, "this is eminently achievable." Dr. Mohamed Ariff of the Malaysia Institute of Economic Research presented a study to the GOM where he argued for a 5-6% growth rate as opposed to the 7-8% that many ministers supported. He maintains that it is better to aim lower than to fail to meet the target. The chief economist at CIMB agrees that 6% is within Malaysia's grasp. Wong Chee Seng, chief economist at ECM Libra Securities, is much more negative, saying "The government will not meet its targets. It moves too slow." University Malaya professor Andrew Sheng (formerly chairman of the Hong Kong Securities Commission and Bank Negara Assistant Governor) disagrees. Looking at regional growth estimates from the International Monetary Fund, he wonders why the GOM did not set the growth bar higher. He believes that Malaysia should link its growth to China and India by exploiting complementary business opportunities.

#### Seeking Private Help

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¶9. (C) The 9MP calls for the private sector to lead growth, aided by the public sector in its role as facilitator and regulator. Our economic contacts agree with this idea, but observe that it will require a significant increase in private investment, both domestic and FDI. Under 9MP, the GOM projects private investment to grow at an annual rate of 11.2% and public sector investment at 5% -- rates that are inconsistent with recent trends. Under the 8MP, private investment actually contracted about 1% each year. Changing this situation would require the GOM to give the private sector more freedom from regulation and control than its socioeconomic objectives for the bumiputera (ethnic Malay)

community currently allow. For example, the current requirement that 30% of equity and employment be reserved for bumiputeras is a significant investment disincentive. As Yeah put it, "Why would you want to do all the work of setting up a business in Malaysia only to have to turn 30% of it over to someone else?"

¶10. (SBU) One of PM Abdullah's signal economic achievements has been to shrink the government's budget deficit, now down to 3.8% of GDP. 9MP appears likely to slow further progress on deficit reduction. According to Wong, Abdullah concluded that too many people depend on government contracts to keep applying the screws to expenditures. At the end of the 9MP, the overall federal government fiscal deficit is forecast to be RM 107.6 billion, or 3.4% of GDP, assuming the government can meet its growth targets. The majority of our contacts are not overly concerned with this change in fiscal stance. Sheng argues that it is reasonable for a developing country such as Malaysia to pursue deficit spending on infrastructure projects that will generate growth. The difficulty in the past, he says, has been large public projects that do not offer a good return on investment.

#### Ambitious Development Goals

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¶11. (U) Some examples of the sort of investment that University Malaya's Sheng sees as positive are biotechnology research, ICT infrastructure (such as high-speed internet and more training in schools), and development spending on tourism. Sheng sees these as high-growth projects with the potential to leverage more investment and business for Malaysia in the future. Pointing to India and its back-office outsourcing, Sheng asks, "Why shouldn't Malaysia be able to offer similar services at a competitive price? We have the education, English language, and with this type of incremental investment, we can do business with New York via the internet." He is similarly enthusiastic about the plan to promote the tourism sector, which in 2005 drew 16.4 million tourists and generated RM 32.4 billion (US\$ 8.8 billion) -- 80% more than export earnings from palm oil, six times more than rubber, and only 30% less than the oil and gas industry.

¶12. (C) Some of 9MP's ambitious goals are so lofty as to appear unachievable in five years. For example, the plan calls for Malaysia to increase the percentage of university professors with PhDs to 60% from the current level of 20%. Time and resource constraints, coupled with the fact that highly educated workers can do better elsewhere, make achieving this goal unlikely. As Wong of ECM Libra noted bluntly, "I tell my children to stay in New Zealand. What opportunity does a Malaysian educated abroad have here?"

¶13. (C) Some of the agriculture goals seem equally unrealistic. For example, the government proposes to increase rice production by approximately 50% by 2010. According to Ministry of Agriculture Deputy Secretary General Zulkifli Idris, the prime minister pushed for sharp production increases to benefit Malay farmers in the politically sensitive northern states. Traditionally, Malaysia has grown about two-thirds of the rice it consumes domestically, importing the remainder from low-cost producers like Thailand and Vietnam. Although the cheap imports allow the GOM to maintain low fixed retail prices for urban and rural consumers, the government loses money on every ton of rice produced domestically: it pays direct subsidies to farmers while Bernas (the government-linked monopoly rice importer and the main marketer of domestically produced rice) buys locally produced rice at a higher price and sells it at low, government-fixed retail price. Working-level contacts indicate that the sharp rice production increase in 9MP is unrealistic, and Zulkifli admitted as much in his statements. Nonetheless, the planned investment in such areas as improved irrigation, mechanization, and farmer organizations in the northern states will likely have a political payoff for Abdullah.

¶14. (U) With the publication of the 9MP, Prime Minister Abdullah also went firmly on record in support of maintaining the National Economic Policy (NEP). The NEP was introduced in 1970 with the goal of transferring at least 30% of Malaysia's equity and wealth to bumiputeras through affirmative action policies favoring the Malay majority's participation in the economy. The NEP was initially intended to have been completed in 1990, but when the target was not met the government replaced the NEP with the National Development Policy (NDP). With 9MP, Abdullah has pledged to continue these policies through 2020 with the hope of finally achieving the 30% goal.

¶15. (U) The 9MP will try to raise the bumiputera equity stake to 20-25% in 2010 from 18.9% in 2005. The plan also seeks to narrow the income gap between bumiputeras and ethnic Chinese from a ratio of 1:1.64 in 2004 to 1:1.50 in 2010, and between bumiputeras and ethnic Indians from 1:1.27 in 2004 to 1:1.15 in 2010. It also sets a target of halving the country's overall poverty rate from 5.7% in 2004 to 2.8% in 2010, and completely eliminating "hardcore poverty" in 2010.

¶16. (C) Non-government economists support these goals publicly but deplore them in private. Some challenge the reliability of the government's data. For example, a significant amount of publicly listed shares are held under nominee accounts, many of which are bumiputera-owned, but the government considers all of them non-bumiputera. Others decry the added cost of business the NEP policies place on private investors and the disincentive they pose to FDI.

#### Implementation - GOM versus Private Industry -----

¶17. (U) Since the 9MP roll-out, the government has generated a steady media buzz about the importance of effective implementation of the plan. Abdullah has publicly promised to fire any civil servants who get in the way. But the GOM and industry have different ideas of what constitutes good implementation. The GOM has announced that 9MP will feature better governance, world class project management, increased due diligence, less corruption, and speedy disbursement of funds. In a recent speech, Effendi Norwawi, Minister in the Prime Minister's Department for Economic Planning and Abdullah's point man for the 9MP, explained that the GOM wants to work in partnership with the private sector. He emphasized Abdullah's personal commitment and noted the creation of a new agency, the National Implementation Action Body (NIAB) to monitor the performance of agencies implementing major projects under the 9MP. Abdullah will head the organization, with Deputy Prime Minister Najib Razak as deputy chairman and ministers with specific 9MP authority sitting on the council. It will meet every two weeks and, according to Effendi, Abdullah will be demanding progress reports.

¶18. (C) The prime minister's own office is set to receive a large allocation under the 9MP. Although there is no detail as to how the funding will be spent, 9MP sets aside RM 26.5 billion (13.2% of the total) for Abdullah's department - a threefold increase over 8MP (RM 7.3 billion and 4.3%). The public spin on these figures is that the resources will enable the prime minister to focus on his key goals and move the process along. In private, however, economists voice concern over the potential for abuse of funds.

¶19. (C) When the private sector talks about good implementation, they hope the GOM will remove the mass of government red tape and regulation that increases costs and scares away investment, both local and foreign. Minister Effendi himself related a story about a hotel venture that required 73 different licenses before it could open. Some took so long to obtain that the operator needed to repeat the application process because they only lasted for a year.



Yeah detailed a similar process in Penang, saying "at least at the international level, there is MIDA to be one-stop shopping for the licenses. A Malaysian investor must deal with both state and local regulations and the government needs to move to change this quickly." But few economists believe that the GOM will move decisively to cut red tape and reduce its economic meddling. Sheng compared Malaysia to China: "In Shanghai, they were trying to take some business from Hong Kong and the manufacturer asked if they could move his product from China to the distribution point, including customs, in 24 hours. Shanghai's mayor was able to make this happen. Would that be the case in Malaysia?"

#### Economists Not Overly Optimistic

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¶20. (C) Comment: Successful implementation of the 9MP is Abdullah's top economic priority, but the economists we surveyed are not optimistic that he will be able to achieve all his goals for the plan. While they see some good initiatives, they do not see bold steps that would lift Malaysia back up to the growth rates of the late 1980s. There is a sense of urgency in both the senior levels of the government and among senior economists that Malaysia is at a crossroads. Wong suggested that, "there are two camps in the government, the ones who see that if we do not make changes that we will settle into second class and the others who are happy with the way things are." Sheng, in a presentation to senior business leaders, government managers and economists, argued that Malaysia was in a similar situation as the U.K. and Japan in the early 1980s. The U.K. was not doing well and opted to open its financial sector to bring in FDI and investment. Japan, in contrast, tried to hold onto its manufacturing lead and did not open to foreign investment. He suggested that Malaysia might want to examine how the two nations are faring today and consider its options. End Comment.  
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